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THE PHILIPPINES: A SITUATION REPORT

STAFF REPORT

TO THE

SENATE SELECT COMMITTEE ON INTELLIGENCE UNITED STATES SENATE

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LETTER OF SUBMITTAL

OCTOBER 21, 1985.

Hon. DAVE DURENBERGER, *Chairman,*
Hon. PATRICK LEAHY, *Vice Chairman,*
Select Committee on Intelligence,
U.S. Senate, Washington, DC.

DEAR SENATOR DURENBERGER and SENATOR LEAHY: As a reflection of the Intelligence Committee's longstanding concern over events in the Philippines, you requested a staff trip to be made to that country and other Southeast Asian nations to assess firsthand the current situation and the prospects of future developments.

During the month of August we visited the Philippines, Indonesia, Malaysia, and Singapore. We interviewed U.S. Embassy personnel, government officials, and private citizens.

Our investigation was aided by substantial briefings and information from the appropriate U.S. agencies before we left, and by additional research and discussion upon our return.

We are filing both a classified report for Committee consideration and, because of your expressed concern for public awareness of critical issues, an unclassified report.

Our conclusions contained in the attached report and executive summary fully support the Committee's concern over the deteriorating authority of the Marcos government, the inability of the armed forces of the Philippines to deal with a rapidly growing insurgency, that nation's deepening economic problems, the abuses of political power, and threats to the future of U.S. interests as most immediately represented by our bases at Clark Field and Subic Bay.

This report is designed to be a snapshot of the situation as it exists at the moment. One of the major results of our investigation was our conclusion that this is a rapidly evolving issue. Current conditions are fluid. What is true today in some major elements of the Philippine equation, could and most probably, will be very different six months or a year from now.

We wish it were possible to conclude that events are flowing toward a less turbulent time. But we cannot. It is our view that the Philippine government, as presently constituted, has about three years to effect fundamental reforms. Even that period of time could be reduced by accelerating events.

Unfortunately, our investigation indicates that the Marcos government is unlikely to pursue the changes necessary to stop economic hemorrhaging, to slow or halt the insurgency, or to heal the major lesions that are infecting the political process.

We are aware that others have estimated there may be as much as five years in which to resolve the military confrontation now un-

derway. It is our belief that deteriorating economic conditions and civil unrest, are likely to force political change before the progress of the insurgency is resolved.

We visited several parts of the Philippines, concentrating our activities in Manila in the North, Cebu in the middle of the country and Cagayan be Oro, in Mindanao in the South.

We feel that those we talked to were forthcoming and sincere in the opinions they expressed. While there were divergences, there was, on the whole, remarkable coalescence on the basic issues and conditions and, we must add, a remarkable lack of coalescence on what can or should be done. We respectfully submit this report.

Sincerely,

DAVE HOLLIDAY,
Professional Staff Member.
JIM DYKSTRA,
Professional Staff Member.
MARVIN OTT,
Professional Staff Member.
NATALIE BOCOCK,
Research Assistant.

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EXECUTIVE SUMMARY

The United States has major political and strategic interests at stake in the Philippines. As the former colonial power, the United States is probably identified more closely with the Philippines than with any other Asian country. In addition, the United States maintains major air and naval facilities at Clark Field and Subic Bay. The post-1975 Soviet military presence in Vietnam has given the two bases a new importance as the southern anchor of American power in Asia. From Clark and Subic, U.S. naval and air operations extend westward as far as the Persian Gulf.

American interests are imperiled by a rapidly growing Communist insurgency that threatens the 20-year rule of Ferdinand Marcos and aims to install a Marxist, anti-U.S. regime. U.S. concern is shared by Manila's Southeast Asian neighbors, who see Philippine stability and the U.S. bases as crucial to the overall security of the region.

The Communist-led New People's Army [NPA] has grown from a minor presence in the 1970's to a number now estimated at over 30,000 armed *regular and irregular guerrillas.*[1]

The NPA in conjunction with the Communist Party of the Philippines [CPP] *controls or is contesting control* of settlements inhabited by at least 10 million people. The military initiative clearly rests with the NPA. It has supplied its guerrillas almost entirely with weapons captured, and occasionally purchased, from the Philippine Armed Forces.

The recent rapid growth of the CPP/NPA is attributable to its skillful exploitation of a growing catalog of popular grievances against the Marcos regime.

Political and economic power are monopolized at the top by a small oligarchy, while at the bottom the mass of Filipinos live in poverty without real input into the political process. A few favored Marcos cronies have been given control of large agricultural and industrial monopolies that dominate the economy. They retain their favored position by demonstrations of loyalty to the President and financial support for his political machine. Political corruption and human rights abuses, particularly by the Armed Forces, have fueled popular resentment. The 1983 assassination of President Marcos' strongest political opponent, which the Agrava Commission concluded was committed by Philippine military personnel, greatly hastened the decline in popular support for the regime while stimulating recruitment for the NPA.

The Philippines is the only non-Communist country in Asia with a negative growth rate. GNP fell 4 to 5 percent in real terms in 1984 and 1985. Unemployment is serious and getting worse, exacer-

[1] Regulars are members of full-time, mobile guerrilla units. Irregulars are part-time fighters who stay close to their home villages.

bated by a population growth rate far higher than in neighboring countries. The Philippines has the most serious external debt problem of any Asian country, aggravated by the large-scale flight of capital as wealthy Filipinos move their assets to safer havens abroad. Corruption has become a serious burden on the economy as those in positions of power—the Marcos family, the cronies, military commanders—have exploited opportunities to amass large private fortunes. Even under the most optimistic projections, the Philippine economy will only regain by 1990 levels achieved in 1980.

Manila's response to the rise of the NPA has been inept. The Philippine Armed Forces suffer from a variety of ills including an inadequate budget, shortages of supplies and equipment, poor logistics and medical care, and an increasingly corrupt and politicized senior officer corps. Civic action programs exist more in Government rhetoric than in reality. Politically, the regime has done nothing effective to arrest the sharp decline in popular support since the Aquino assassination or to groom a successor. The non-Communist democratic opposition has become much more visible and active since the assassination. Although united only in their opposition to Marcos, the opposition parties do hold one-third of the seats in the National Assembly and can claim among their number probably the single most popular political figure in the Philippines—Benigno Aquino's widow, Cory. A key issue upon which the opposition is not united, is whether the U.S. lease on Clark and Subic should be renewed when it expires in 1991.

In this generally bleak picture there are some hopeful elements. The 1984 parliamentary elections were reasonably honest by Philippine standards, thanks largely to the work of a nationwide citizen's volunteer organization of poll-watchers. The Catholic Church is well organized and effectively led nationally and commands the continued respect of the vast majority of Filipinos. The church has been highly critical of the Marcos regime but has avoided a formal rupture. Within the Philippine Armed Forces there is still a large number of professionally competent, honest officers, particularly at the middle and lower ranks. Many of them have recently organized a nonpolitical reform movement in an effort to restore the professional integrity of the armed forces. Similarly, in business, government, education, the press, and other sections of Philippine society, there is a rich endowment of talented professionally trained people who could be the engine for national reconstruction.

A key variable in the present situation is President Marcos' health. Press reports indicate that he suffers from a life threatening systemic disease that attacks the kidneys. Even if he were to recover his past vigor, conditions in the country will continue to deteriorate unless the regime undertakes serious political, economic, and military reforms. We believe such a change, of course, is very unlikely, and there is serious doubt whether the Marcos regime still has the administrative and political capability to initiate reforms even if it were so inclined.

U.S. INTERESTS

The U.S. stake in the future of the Philippines is direct and substantial. The relationship between the two countries is unique if

only because the Philippines was America's only true colony. Having occupied and subdued the Philippines after the Spanish-American War, the United States assumed responsibility for laying the political and economic groundwork for independence. By World War II, a sufficient bond had been established between the two nations that the Filipinos (unlike other indigenous populations in Southeast Asia) mounted a sustained popular resistance to the invading Japanese Army—often fighting alongside Americans. After the war, the United States kept to its prewar timetable and granted independence to the Philippines in return for economic privileges and the right to maintain military bases in the islands, notably at Clark Field and at Subic Bay, the largest American air and naval facilities outside the United States.

The Republic of the Philippines adopted a political system patterned on that of the United States and maintained very close political, economic, cultural, and military ties with America. U.S. advisers and equipment were critical in the successful effort to put down the Communist Hukbalahap [Huk] insurgency in the 1950's. Clark and Subic played a key role in supporting the major American military buildup in Vietnam in the 1960's. U.S. trade with, and investment in, the Philippines grew steadily. Within Asia, the Philippines was viewed as a country so closely bound to the United States by ties of interest and sentiment as to give it a kind of dual identity—half Asian and half American. The last freely elected President of the Philippines, Ferdinand Marcos, came to power in 1965, identified as strongly pro-American.

The advent of a major Soviet air and naval presence in Vietnam after the withdrawal of American forces in 1975 gave Clark and Subic a new importance as the southern anchor of American power in Asia. Today, U.S. naval and air operations extend westward from the Philippines as far as the Persian Gulf. Forces based at Clark and Subic are responsible for protecting the flow of oil and other commerce through the Indian Ocean, the Strait of Malacca, and the South China Sea. Those same forces are central to the defense plans of the pro-Western states of Southeast Asia, plus Australia and New Zealand.

In 1965 the Philippines was a founding member, along with Thailand, Indonesia, Malaysia, and Singapore of the Association of Southeast Asian Nations [ASEAN]. This non-Communist group has become the centerpiece of U.S. policy toward Southeast Asia, particularly with Vietnam's military occupation of Cambodia and Laos. Collectively, the ASEAN states have achieved some of the highest sustained rates of economic growth in the world. Washington has viewed ASEAN as a potent barrier to the further expansion of Communist influence in the region, and dramatic proof that the Western model of free enterprise economies and relatively open societies offers the best hope for modernization and development in Afro-Asian states.

Clearly the recent deterioration in Government authority and the emergence of a powerful Communist insurgency in the Philippines threatens very important U.S. national interests. A major task of U.S. analysts has been to identify the causes, dimensions, and probable future course of this development.

THE SECURITY SITUATION

The insurgency

The origins of the present insurgency can be traced to 1968 when a group of Maoist students left the University of the Philippines and linked up with the remnants of a Huk guerrilla band to form the New People's Army [NPA]. There objective was an armed revolution using a "peoples war" strategy developed and implemented by Mao Tse-tung. They suffered a number of setbacks at the hands of the Philippine Armed Forces in the 1970's and remained little more than an irritant throughout most of the decade. During this period the Government's attention was focused on a Muslim insurgency in the south. Meanwhile, the NPA learned by trial and error and gradually strengthened its organizational base. By the 1980's, they were entrenched on all major islands and operating in most provinces.

The NPA insurgency differs from that of the Huks in a number of respects. Whereas the Huks were geographically concentrated in central Luzon, the NPA has established itself throughout the Philippines. The Huks' appeal was based on age-old agrarian problems. The roots and causes of the NPA insurgency are more varied, including economic deprivation, social injustice, Government corruption and abuse of power, and the decrepitude of existing public institutions. Consequently, the NPA has already become a far more formidable force that the Huks ever were.

In the 2 years since the Aquino assassination, the NPA has expanded so rapidly that it now poses a credible threat to the survival of the Philippine Government. From a total force of a few thousand armed guerrillas in 1980, the NPA has grown to probably over 15,000 regulars and a somewhat larger number of part-time irregulars. These forces are fighting on as many as 60 fronts around the country including occassional company level (200–300 men) operations. Some level of NPA activity now exists in almost all of the country's 73 provinces.

The NPA is the military arm of the Communist Party of the Philippines [CPP], which has an estimated membership of at least 30,000. The party controls or is contesting control of settlements inhabited by at least 10 million people—out of a total population of 53 million. In some areas, notably in Davao on the Island of Mindanao, the party has begun to establish a significant presence in the cities.

Communist long-term efforts to politicize the rural population against the Government are increasingly paying dividends. New guerrilla fronts are being formed regularly, and the number of villages falling under Communist control has escalated rapidly since mid-1983. In southern Mindanao, for example, where the CPP/NPA is very active, conservative estimates indicate the Communists have more than doubled the number of villages they control since the Aquino assassination in 1983.

The level of insurgent activity nationwide has been increasing steadily over the last decade, with the most dramatic growth occurring since 1980. Last year, a vast majority of the more than 5,000 violent incidents were initiated by the NPA. Even discounting the 1,300 ballot box snatchings that occurred during elections in 1984,

there were nine times as many violent incidents in 1984 than 10 years earlier and 50 percent more than in 1983.

NPA units nationwide now routinely attack Government forces. These include 100- to 300-man assaults on poorly defended armed forces garrisons and economic and strategic targets. Despite recent Government sweep operations in Mindanao and northern Luzon, the NPA—not the armed forces—still initiates most of the military actions. Many NPA attacks on military outposts are intended to acquire weapons. By the end of 1983 the NPA claimed to have obtained 20,000 weapons, including machineguns and grenade launchers, in this fashion. Each year the number of weapons captured has increased. In the first 5 months of 1985, the NPA captured more than in all of 1984.

The recent rapid growth of the CPP/NPA is attributable to the Commissions' skillful exploitation of a growing catalog of popular grievances against the Marcos regime.

Political and economic power are monopolized at the top by a small oligarchy, while at the bottom the mass of Filipinos live in poverty without real input into the political process. The trappings and symbols of democracy exist, but they overlay a patron-client system inherited from Spanish rule and earlier tribal traditions. Until recently, the hierarchical network of patrons, held together by personal loyalties and operating much like a political machine, provided essential goods and services to the people in the countryside in return for their support. Because much of the country's wealth depend on agricultural production, power was distributed widely among regional barons, rather than concentrated in the hands of a few leaders in Manila.

After World War II, economic modernization, the lure of the "good life" in Manila, land reform, and other such factors began to undermine the influence of the regional chieftains and concentrate power and wealth more in the capital. President Marcos dramatically accelerated this trend in the 1970's when he imposed martial law, which enabled him to concentrate greater power in his own hands at the expense of regional leaders. He now hand picks not only Cabinet officers, but also mayors and other local officials—a privilege traditionally reserved for the regional elite. In many areas this has created officials more dependent on, and responsible to, President Marcos than to the needs of their local constituencies.

Similarly, a few favored Marcos cronies have been given—often by Presidential decree—control of large agricultural and industrial monopolies that dominate the economy and seriously disrupt the operation of a free market. These personal associates retain their favored position by demonstrations of loyalty to the President and financial support for his political machine, the Kilusan Bagong Lipunan [KBL]. Those who do not contribute time and money risk expropriation of their business empires and loss of political influence to others more willing to cooperate.[1] A recovery of the troubled Philippine economy depends on the President's dismantling of the crony system. In view of his declining popular support, however, it

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[1] The leader of the citizen poll watching group, NAMFREL, and wealthy flour mill owner, Jose Concepcion, is reportedly the latest target of such a power play.

is doubtful that he can accept the loss to his own power that this would entail.

Government policies have tended to increase rural poverty and worsen income distribution: at least 20 million rural Filipinos live in poverty—defined by the World Bank as an annual income of less than $160—and their numbers are increasing; the landless poor account for nearly 49 percent of households in rice and sugar-growing areas; and several million Filipinos live in Manila's slums. The outlook for the next several years is not encouraging. Even if President Marcos initiates a sweeping economic reform program, informed estimates are that the majority of rural Filipinos will still live in poverty in 1990.

Most Filipinos blame official corruption for much of their Government's poor performance. They point to the enormous personal wealth of President Marcos and his family, mostly accumulated while in power, and note that they have invested large sums outside the country. And although enriching one's self while in office has been a commonly accepted practice in the Philippines, the extent of the President's intervention on behalf of family and friends has well exceeded social norms.

Abuses perpetuated by corrupt officers and undisciplined personnel and a general breakdown of peace and order have severely shaken respect for the military and the police. Many Filipinos question the Government's ability to protect them from lawless elements and to dispense justice equitably. Murder, kidnapings, torture, and lesser abuses have become commonplace occurrences in recent years. Both the armed forces and the NPA have resorted to clandestine assassination or "salvaging" as a major weapon in their struggle. Davao City has been experiencing an average of three to four killings per day, yet there has not been a murder trial in over a year. NPA killings of local government officials including mayors, police chiefs, and teachers number several hundred per year nationwide. There may be a comparable number of salvaging attributable to government forces.

These and other perceived abuses have been a major factor in many Filipinos' choosing to join in the insurgent ranks. This is especially true of the growing number of Catholic clergy and nuns who support the Communists. Some, such as Conrado Balweg, a rebel priest, NPA commander, and even a popular Filipino folk hero to some, already play important roles in the insurgent organization.

The accelerating decline in Government authority and effectiveness has had two other effects. The first has been a growing effort by Filipinos to leave the country for the United States. The American consulate in Cebu, for example, handles a heavy volume of applications and special requests from would-be emigrants. Meanwhile, most of those close to Marcos have prepared their escape by sending members of their family and much of their wealth to the United States and Europe. Filipinos will soon become the largest Asian minority in the United States.

The second has been the creation of private armies by some of the nation's wealthiest land owners to protect their holdings. The force maintained on Negros by sugar magnate and close Marcos crony Eduardo Cojuanco, is one prominent example. The result is

the emergency of what are, in effect, local warlords—many of them heavily involved in criminal activities.

Government response

Manila's response to the rise of the NPA has been inept. Despite occasional lipservice to "civic action," the Government has treated the insurgency as a purely military problem. Unfortunately, the Philippine Armed Forces suffer from a variety of ills. The defense budget equals only 1 percent of GNP, the lowest in Southeast Asia. Shortages of supplies and equipment—trucks, aircraft, uniforms, food, fuel—are endemic. Pay is poor and medical care is often nonexistent. A disproportionate number of units are concentrated in Manila rather than sent into the field against the NPA. Equipment maintenance is inadequate and there is no logistical system worthy of the name. Morale and mobility are both low. Perhaps most important, leadership is often poor and there are no central training facilities, with the result that troops are frequently sent into the field with inadequate training. Many of the best officers and technically skilled personnel have left the Armed Forces to take higher paying jobs as mercenaries with armies in the Middle East.

All these problems are magnified for the Civil Home Defense Force—the Government-sponsored local militia. Frequently, CHDF forces will throw down their arms and flee when challenged by the NPA. As a consequence, they have been a major source of weapons and ammunition for the insurgency. Ill-trained CHDF are also a source of many abuses of the civilian population.

There is a faint bright spot in this gloomy picture. The marines are a relatively well-trained, disciplined, and effective fighting force—but they are few in number.

Until very recently, President Marcos refused to acknowledge the deteriorating security situation. His belated recognition that the insurgency poses a serious threat has not caused him to alter his politics-first approach to the Armed Forces. Modest reforms pressed by General Ramos, including retirement of "overstaying generals," redeployment of some forces out of Manila, and retraining, have received little support. Most importantly, Ramos cannot reassign, promote, or remove an officer without the President's permission. Marcos' response to the growing threat is a program to reactivate 11 infantry battalions and form 2 more marine battalions by the end of next year. Manpower is not the major problem facing the Armed Forces and the new units may simply aggravate already serious logistical difficulties. In addition, Marcos reextended for political reasons six elderly generals, whose retirements were overdue.

Soviet interest

The CPP/NPA is an indigenous Philippine movement. At the beginning in the 1960's, it received ideological inspiration plus some training, political, and material support from the Peoples Republic of China. However, by 1975, the Maoist strategy or relying on armed struggle to create revolutionary conditions in the countryside had proven ineffective. Further, Hanoi's postwar alliance with the U.S.S.R. and the permanent presence of Soviet forces in Vietnam caused China to focus on improving its relations with the non-

Communist governments of Southeast Asia. Assistance to Communist insurgencies, including the NPA, was terminated. In 1976 an NPA leader stated flatly that "we are not Maoists." With the Chinese connection severed, the NPA relied almost entirely on weapons captured from Philippine Government forces. This has remained true up to the present.

Until the late 1970's, there was apparently no significant contact between Moscow and the CPP. By the end of the decade, ties were established between unions affiliated with the Soviet-controlled World Federation of Trade Unions and the CPP/NPA's labor front, the Kilusang Mayo Uno. There is no convincing evidence that the Soviet Union has provided funding for the CPP. Some external funding for CPP front groups has apparently come from leftist, social democratic organizations, particularly in Europe. However, the CPP/NPA is still essentially supplied and financed from domestic sources.

The ingredients are present for a possible upgrading of the CPP–U.S.S.R. relationship. The insurgency has grown to the point where the NPA leadership may conclude that foreign funding and arms supplies will be necessary to sustain expanding operations.[2] At the same time Moscow probably believes that unlike the 1970's, conditions for revolution are becoming favorable. Soviet attention to events in the Philippines is certainly on the rise. At a minimum, there is a growing coincidence of interest between the CPP/NPA and the Soviet Union while ideological barriers to a relationship are eroding.

Still, the CPP/NPA is very much a home grown movement and its leadership will probably be hesitant to become dependent on the U.S.S.R. for arms and funding if it can avoid doing so.

Interestingly, Moscow seems to be covering its bets by cultivating ties with the Marcos inner circle. Soviet leader Gorbachev treated Imelda Marcos with great solicitude during the Chernenko funeral. A number of reporters and editors from newspapers controlled by her brother have visited the Soviet Union, where they have received VIP treatment. Not coincidentally, those papers have given Moscow increasingly favorable coverage in recent months.

Clark and Subic

Clark AFB and Subic Bay Naval Base are the most visible manifestations of the U.S. presence in the Philippines. NPA propaganda has focused on the bases as symbols of the "Marcos-U.S. dictatorship" and an affront to Philippine sovereignty.

The bases are located in an area of active NPA activity and perimeter security is poor at both. Recently, an NPA unit was detected inside Subic only a mile from an ammunition depot. NPA leaders boast that they can walk on and off Clark and Subic at will. As yet, however, there has been no effort by the NPA to target either the bases or U.S. personnel.

In the increasingly confrontational political climate, even a democratic successor regime would find it difficult to accept contin-

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[2] One possible source is Vietnam. It is to the NPA's advantage to obtain U.S. arms because that is what they capture from the Philippine Armed Forces. Vietnam has large quantities of U.S. military equipment and shares the CPP's hostility to the United States.

ued U.S. use of the bases under present terms. To protect its nationalist credentials, a new Government would demand that Washington renegotiate the lease or leave. The bases agreement comes up for review in 1989 and for possible renegotiation in 1991.

If the Communists come to power, they will certainly demand the United States to leave. The worst possible outcome for U.S. interests would occur if a CPP government offered the bases to the Soviet Union. American commanders in the Pacific clearly view the bases as of great strategic importance.

ASEAN perspective

Manila's Southeast Asian neighbors and fellow members of ASEAN view these developments with increasing alarm. As one official put it, "The specter of a Communist victory in the Philippines haunts people in this part of Asia." It is a fear shared in Asian beyond ASEAN, notably in Tokyo.

The ASEAN governments would like to do something to help the situation, but they feel their hands are tied. Marcos is not popular with other ASEAN leaders. There has not been an "annual" ASEAN summit for several years because it is the Philippines' turn to host the event, and the leaders of the other states are reluctant to go to Manila under present circumstances. At the same time, they feel constrained by ASEAN comity from taking any steps, including contact with Philippine opposition figures, that might be construed as interference in Philippine affairs.

ASEAN frustration and anxiety are compounded by the importance each of these governments attaches to the U.S. bases at Clark and Subic. If the United States were ultimately forced to leave the bases, some of the ASEAN states might make certain facilities available in order to keep a permanent U.S. military presence in the region.

THE POLITICAL SITUATION

Marcos

Ferdinand Marcos has been President of the Philippines for 20 years. After winning two elections in 1965 and 1969, he has ruled under martial law and emergency decrees since 1972. He has systematically concentrated power in his own hands while blocking the emergency of any serious rivals or potential successors. His most powerful political opponent, former Senator Benigno Aquino, was murdered in August 1983—an act which the Agrava Commission concluded was committed by Philippine military personnel.

As Marcos' power has grown, the circle around him has narrowed. Many of those who once knew him well—relatives, former classmates, and colleagues from the early days of his political career—now find him inaccessible.

All decisions of any importance are made by the President. Marcos clearly views himself as the only person presently capable of leading the country. The political system consists of rival petitioners jockeying for access to the President. The objective is to obtain a Presidential decree favorable to one's bureaucratic or personal interests. Often such decrees are issued without consulting other affected Government officials and agencies. It is a system

highly vulnerable to corruption under the best circumstances. Under Marcos, corruption has become wholesale and massive.

It is difficult to avoid the conclusion that Marcos has equated his personal interests, and those of his family and friends, with the national interest. The result has been a system of "cronyism" and governmental abuse of power that has left the economy in a shambles, and bred a major and growing Communist insurgency. Other Southeast Asian states which had similar resource endowments and levels of economic development have progressed rapidly in economic terms, and have successfully overcome their domestic Communist movements.

Marcos is a master political tactician who has used his skills to enhance his own power and wealth. But in the process, he has crippled the democratic institutions that were the Philippines' most valued legacy from the American colonial period.

Marcos gives every indication that he plans to hold on to power indefinitely, despite increasingly frail health. He suffers from serious problems that impair his ability to function as a national leader and raise questions about his longevity in office.

There is no doubt that he intends to be a candidate in the Presidential elections scheduled for 1987. No one has been groomed in his own party as a possible successor or even running mate—except perhaps, his wife, Imelda. The process of packing the election commission with compliant instruments of the President, has begun with three recent appointments. Local mayors, who have a central role in conducting any election, have been brought under Marcos' direct control.

General Ver, the former armed forces Chief of Staff, is illustrative of the dilemma facing the United States in the Philippines. He has been Marcos' major instrument in politicizing the once strictly professional armed forces. Under Ver, officers' careers have increasingly prospered or withered depending on loyalty to the President rather than professional competence. At the same time, the Armed Forces have exhibited increasingly glaring deficiencies in training, equipment, logistics, and discipline. Ver's overriding responsibility has been the safety of the First Family. His loyalty to Marcos is personal and total. In that regard, there is strong circumstantial evidence to support the finding of the Agrava Commission that Ver ordered the killing of Marcos' most dangerous rival, Aquino. But he is also a strong anti-Communist who sees himself as a proven friend of the United States. He cannot understand why the United States has proved so opposed to his reinstatement. He is essentially a policeman with no strategic view or understanding of the problem he poses to Washington.

Marcos has been made fully aware of the depth of U.S. feelings concerning Ver. He is clearly searching for a way to finesse Washington's pressure while retaining Ver as part of the palace inner circle. Marcos has recently indicated that Ver will be reinstated after his acquittal. The acquittal verdict is expected in a few weeks and is a foregone conclusion.[3] Marcos probably hopes to retain Ver

[3] United States officials publicly questioned the integrity of the proceedings after sworn affidavits linking the Philippine Armed Forces to efforts to intercept Aquino's aircraft were submitted by the United States to the court, and the court refused to take them into consideration.

as armed forces commander for some period of time. If this proves impossible due to U.S. pressure, there is a good possibility that Ver will be given another key post—perhaps as head of a new public safety ministry encompassing the police, the intelligence services, and the constabulary.

The democratic opposition

A significant non-Communist, moderate opposition seeking change through democratic processes exists in the Philippines. The various groups and organizations that comprise the democratic opposition were galvanized into action by the Aquino assassination and the parliamentary elections of 1984—the first in 12 years. Their current activities are focused on the local and provincial elections scheduled for next year and on the Presidential election of 1987. In the emerging struggle for control of the Philippines, they are the only contestants without an army to support their political objectives.

The opposition is neither programmatically nor organizationally united. It consists of a variety of political organizations built on regional identification and particular issues and personalities. What unites these organizations is opposition to Marcos and criticism of the corruption and abuses of the regime. As Presidential elections approach, efforts have been made to establish mechanisms for choosing a single ticket. These have included a National Unity Congress in which most opposition leaders participated and a Convenor's Group of three respected figures to streamline candidate selection. It remains to be seen whether opposition groups can unite behind one major Presidential candidate when the chips are down.

In the meantime, the Communist Party of the Philippines has made determined efforts to infiltrate and combine with moderate opposition parties as part of a united front strategy. A recent attempt to establish an umbrella organization comprising Communist and non-Communist groups was aborted when the Communists overplayed their hand and moved too overtly and aggressively to control the proposed grouping.

Maneuvering among opposition leaders for selection as Presidential or Vice-Presidential nominee and a united opposition ticket is already well advanced. The outcome may depend on the timing of an election. Some opposition leaders have a significant national following, and might well win an honest national election.

At this point, it is uncertain whether Marcos will opt for early elections. From his perspective there are several advantages to doing so. The elections can be held before his health and the health of the economy deteriorate further, and before the opposition can get better organized. On the other hand, an early election puts his tenure at risk before it is absolutely necessary to do so. Moreover, under the constitution, Marcos would have to resign for 60 days prior to an election—a step he is clearly reluctant to take.[4]

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[4] On November 4 President Marcos announced that he was prepared to ask the legislature to approve a "snap" presidential election, probably in January 1986. The opposition has questioned the constitutionality of this procedure since Mr. Marcos apparently has no intention of stepping down prior to the election.

The opposition parties must overcome serious obstacles if they are to make a strong showing in the elections. These obstacles include organizational and funding weaknesses. It is estimated that a viable Presidential campaign will cost the candidate between $10 and $20 million. Funding on this scale will have to come from sympathetic members of the Manila business community and/or Filipinos living abroad. The opposition must also contend with the considerable power of Marcos' regime to rig elections at both the national and local levels.

Opposition hopes for fair elections rest largely on NAMFREL, a national citizen organization of poll watchers. NAMFREL surprised everyone in 1984 by mounting an effective presence at the polls nationwide that received much of the credit for the comparative honesty of those elections and the unexpectedly strong showing of the opposition. NAMFREL has maintained and strengthened its organizations since the election. However, it is suffering from a shortage of funds. To date, NAMFREL has not been reaccredited to the national election commission despite strong U.S. pressure toward that end.

Marcos has reportedly said he would accredit NAMFREL. However, officials of the election commission have suggested that NAMFREL should provide a list of all its workers for Government review to insure that they are "genuinely neutral." The effect would be to put NAMFREL under the Government's thumb. The leader of the organization has indicated that these sorts of restrictions would be unacceptable. The manipulation of the election commission and the attempted subordination of NAMFREL strongly suggests that Marcos, at this point, intends to do whatever is necessary to ensure a favorable outcome in the next election.

Other groups

Some institutions have tried to maintain a posture as advocates of reform while avoiding identification as being pro or anti-Marcos. Two of these deserve special notice—a military reform group and the Catholic Church.

In 1984, a number of younger armed forces officers, all of them graduates of the Philippine Military Academy (the Philippines equivalent of West Point), formed a loosely organized group called simply, "We Belong." We Belong was dedicated to the revitalization of the armed forces, eliminating abuses against civilians, and ending the loss of military effectiveness and public support which are the products of these abuses. Leaders of the reform movement estimate that they now have the support of 70 percent of the 3,000 PMA graduates in active service. Defense Minister Enrile and Acting Armed Forces Chief of Staff General Ramos have publicly endorsed the movement. A number of retired generals, including a former armed forces Chief of Staff, have indicated their support. President Marcos, after initially dismissing their complaints as the traditional "griping" of military men, invited the spokesmen for We Belong to meet with him. He subsequently promised his support and encouraged them to gather information on abuses that could be the basis for prosecutions.

Nevertheless, the future of We Belong is very uncertain at this point. Marcos' embrace is widely viewed as an attempt to co-opt the

movement. Enrile's endorsement may also be motivated more by political consideratons than sincere support. Meanwhile, the Army Chief of Staff and the Commander of the Coast Guard have accused the movement of inappropriate and insubordinate activities. In that context, the Army Chief of Staff announced the formation of a special counter-coup unit stationed in Manila. For their part, at least some leaders of We Belong have recognized in private conversation that their call for reforms may bring them into direct conflict with President Marcos.

The imminent return of General Ver is very disturbing for We Belong. Ver is no friend of the movement, and it is noteworthy that its leaders have become more cautious in recent weeks. There is little doubt that there will be a heavy crackdown on We Belong when General Ver is reinstated.

The Catholic Church has become an increasingly outspoken critic of the regime. The church hierarchy spans a spectrum of opinion from conservative spokesmen to progressive advocates of overt social action. Some local clergy (perhaps 3–5 percent nationwide) have been so radicalized as to become active supporters of the NPA. In the middle are the moderates led by the church's presiding prelate, Cardinal Sin. The cardinal has tried to maintain a position as constructive critic—not hesitating to denounce official abuses and corruption while continuing to work with the Government where he can. At the local level, the church works with a variety of political forces, including the governing Kilusan Bagong Lipunan [KBL] party and its opponents.

As Philippine politics have become increasingly polarized, the importance of the church has grown as perhaps the most authentic single voice of the Philippine people. The church is highly organized at the local level throughout the country. It maintains the only nationwide radio and newspaper immune from Government censorship. Pastoral letters provide another effective medium for communicating the views of the hierarchy to a mass audience. Pastoral letters, for example, were used to urge parishioners to vote in the 1984 Assembly elections in the face of a Communist boycott campaign. Because of its close contact with the mass of the population, the church tends to be very well informed concerning events and trends throughout the country. It remains the one national institution whose credibility is untarnished by the general deterioration in conditions.

THE ECONOMY

Problems

Benefiting from strong international commodity prices, the Philippine economy grew at an annual 6–7 percent rate through most of the 1970's. However, the rapid rise in the price of imported oil, the global recession, and the collapse of commodity prices had exposed serious structural problems by the beginning of the 1980's. A weak manufacturing sector, extravagant and unproductive public sector spending, and Government policies that undermined agricultural productivity with artificial prices and public monopolies in coconut and sugar, led to increased reliance on foreign borrowing to finance investment and consumption.

GNP fell 5 percent in 1984 and will probably drop another 4 percent this year. Unemployment is serious and getting worse—exacerbated by a population growth rate of 2.5–2.6 percent. Comparable rates in neighboring Thailand and Indonesia are 1.5–2.0 percent.

The debt crisis in the Philippines has been as protracted as that of almost any major debtor country, and damage to the economy has been severe. As the debt burden grew, the Philippine Government had to resort to borrowing for shorter terms and at higher rates. Presently, the annual foreign debt burden equals 35 percent of exports—a ratio comparable to Argentina. Total accumulated debt is $25 billion.

The assassination of Benigno Aquino in August 1983 set off an estimated $600 million flight of capital abroad. Nearly half of Philippine debt at that time was short term. The reluctance of foreign banks to extend those arrangements as political conditions deteriorated led to the announcement of a moratorium on the repayment of foreign exchange principal, resulting in a strangling lack of liquidity.

Unlike neighboring Asian states such as Taiwan, Hong Kong, South Korea, and Thailand which registered export growth rates in the neighborhood of 20 to 30 percent for the 1980–84 period, the Philippines' exports declined. The IMF had predicted exports would increase by 10 percent in 1985. Instead, projections for 1985 foresee a real decline in the value of exports of 9–11 percent. This puts the 1985 value of Philippine exports 15 percent lower than 1980.

IMF financing

The Philippines is the only Asian country which has required restructuring of its commercial bank debt under IMF guidelines. The IMF financial rescue package provides for a $615 million balance of payments loan designed to improve the balance of trade, trim inflation, and reform public finances and agricultural marketing arrangements. Compliance with IMF conditions would permit the Philippines to reschedule $5.4 billion in debt repayments to commercial banks, obtain $3 billion in short-term trade credits and $925 million in medium-term loans.

The IMF announced at the end of September that it was reconsidering the $106 million the Philippines was scheduled to borrow in October due to failure to comply with the terms of the package. Additional drawings from the $925 million commercial bank loan, as well as negotiations on rescheduling debt due in 1987 and 1988, were put on hold until the package could get a favorable review. At the end of October, the IMF announced its decision to withhold the third loan disbursement because of Marcos' continued refusal to carry out promised economic reforms. Among the most important adjustment measures required by the IMF were the reduction of budget deficits, and the restructuring of inefficient monopolistic sectors.

The IMF had targeted the agricultural sector for major attention. There are two main reasons why Manila has been reluctant to act on IMF advice: (1) restructuring agribusiness would require long-term investment—precisely the sort of adjustment that is difficult under the pressure of debt repayment timetables, (2) though agricultural restructuring would provide a much needed impetus

for export growth, Marcos has not heeded prescriptions in this area largely for political reasons. He perceives continued economic privileges for allies of the ruling party to be critical to his tenure.

In the last year, the coconut industry ostensibly was freed from the monopolistic control of one of Marcos' associates. However, a cartel arrangement has replaced the monopoly, and now controls 80 percent of the Philippine market. Coconut farmers continue to get less than 60 percent of world market value for their produce. It is no surprise that the coconut-farming areas are among the most successful targets for recruiting by Communist insurgents.

Corruption has become a serious burden on the economy. The first family and their favored cronies use their positions to amass great private wealth, much of which is transferred abroad.[5] Military commanders profit from large scale illegal timber cutting, resulting in the elimination of a future timber resource, massive destruction of watersheds, and heavy damage to agriculture, fisheries, and urban areas from uncontrolled flooding.

Outlook

There are some very modest and tenuous signs that the free fall of the economy may have been arrested. This improvement is attributable to reforms (including devaluation) mandated by the IMF in its 1984 agreement with the Philippines, and the new lines of credit made available by the Fund and commercial banks. The annual rate of inflation decreased from 50 percent in 1984 to roughly 8 percent in recent months. Interest rates have fallen from 60 percent in 1984 to less than 20 percent this year. Foreign exchange reserves have increased to $1.5 billion (largely as a consequence of new loans) and the peso exchange rate has stabilized. The flight of capital has slowed—principally because most of the available liquidity has already gone abroad.

Economic recovery of seven modest proportions is heavily dependent on continuing to receive IMF and commercial bank credits. Assuming this occurs and even with optimistic projections on export growth next year, 1987 per capital income is likely to be more than 10 percent below the 1981 level. By 1990 the economy may have recovered to 1980 levels. But, if exports are flat next year, GNP could decline by nearly 5 percent. The pace of United States economic growth will be a primary determinant of Philippine export levels.

United States-Philippine bilateral economic relations

Trade and investment.—United States-Philippine economic ties are extensive, and critical from Manila's perspective. Exports drive the Philippine economy. Future economy recovery will depend almost entirely on export growth. Furthermore, access to international credit is tied to export growth as part of the IMF adjustment package. Consequently, denial of the United States market to Philippine exporters would have a catastrophic impact on the Philippine economy in both the short and medium term. The United

[5] Underreporting exports is one means used to move capital overseas. In one documented study of this practice, only one-third of imports of Philippines' timber registered in Japan had been posted in Manila.

States is also the largest source of foreign investment in the Philippines. The $1.1 billion in cumulative United States equity investment represents 55 percent of total foreign direct investment, according to Philippine central bank statistics.

Philippine exports to the United States make up 38 percent of total Philippine exports. Last year this amounted to $248 million. A 10- to 15-percent decrease is expected this year. Electronics/integrated circuits, garments, coconut oil, and sugar are the major sectors. Imports from the United States make up 27 percent of total Philippine imports. Significant sectors are electronics/silicon chips, wheat, and various other agricultural products. The rest of the list is quite diverse. Oil comprises 16 percent of total Philippine imports, coming mainly from the Middle East.

Foreign assistance.—There are two major forms of United States assistance to the Philippines: (1) Economic development assistance under the Foreign Assistance Act, and (2) the Security Assistance Program [6] associated since 1979 with the agreement allowing the United States use of Clark and Subic military bases.

The United States provides approximately $80 million annually in economic development assistance including food assistance under Public Law 480, and development aid. Development aid runs approximately $35 to $40 million per annum. In fiscal year 1985 food assistance under Public Law 480 was approximately $40 million. There are no firm proposals for amounts in fiscal year 1986 or fiscal year 1987.

The military bases compensation agreement is reviewed every 5 years. President Reagan has pledged U.S. "best efforts" to provide $900 million as a compensation package for the 1985–89 period. This is comprised of three categories: (1) foreign military sales credits, (2) economic support funds, and (3) the military assistance program.

The allocation of this money has been controversial. For fiscal year 1985, $15 million for foreign military sales credits, $25 million for the military assistance program, and $140 million in economic support funds has been appropriated. The allocation for fiscal year 1986—$20 million in foreign military sales credits, $50 million in military assistance programs, and $100 million in economic support funds—has been authorized but not appropriated. These numbers could undergo substantial change in the appropriations process.

PROSPECTS

The combination of a deteriorating domestic security situation and the President's failing health strongly suggests that the Marcos era in Philippine politics is drawing to a close. The key question is whether it will be replaced by a Communist regime or one constituted by non-Communists, such as the present democratic opposition or the Philippine Armed Forces.

Every month that passes without major political and economic reforms contributes to the likelihood of an NPA victory. How long

[6] There are other indirect and some less important United States programs. Eximbank current exposure is $260 million in short-term loans, $149 million in medium-term loans, and roughly $1.1 billion in long-term lending. The Commodity Credit Program for fiscal year 1985 was $125 million.

can the present trends persist before the situation is irretrievably lost—before it is too late for reforms to take hold? There can never be consensus on a precise timetable but available evidence strongly suggests that the point of no return will be reached within 3 years.

This outcome is not foreordained, of course. It could be altered under a variety of scenarios. The first would be a decision by Marcos to change course and throw his influence and authority behind a serious program of reforms. Marcos remains the one man that has the power to assure a democratic transition to a successor government. However, present indications are that Marcos has no intention of playing the role of reformer. He may fear that reforms—including honest elections—might threaten the political and economic underpinnings of the regime. In contrast, U.S. officials believe that reforms are a prerequisite for restoring public support for the Government. It remains to be seen whether sufficient outside (i.e., United States) influence could be mobilized to leave Marcos with no real alternative to such a course.

A key variable is Marcos' health. If he is incapacitated in the short term, the potential for a non-Communist future in the Philippines will rest almost entirely with the democratic opposition and the Armed Forces.

There are a number of indicators that would signal if President Marcos became serious about reforms. They would include a decision on whether to accredit NAMFREL for the next elections, a response to IMF demands that the sugar and coconut monopolies be dismantled, a determination on the status of General Ver, and a willingness to professionalize the Armed Forces.

The prospects and timetable for a Communist takeover would be affected greatly by a fair or rigged election or a reformist or reactionary coup. For example, a blatantly corrupt election next year could ignite an explosion of public resentment that could in turn further stimulate the growth of the NPA while accelerating the general breakdown in civil order. The chances for a constitutional succession could be improved if Marcos died suddenly, as opposed to a lingering period of incapacitation. An Armed Forces coup is unlikely because such a step would be very much against the grain of AFP history and tradition. If such a coup does take place, it will probably come from the younger and midlevel officers.

There are some grounds for believing that it is still possible to stem the ominous deterioration in conditions. The 1984 National Assembly elections were reasonably honest, due largely to the national outrage in the wake of the Aquino assassination and to the efforts of NAMFREL. With significant representation in the National Assembly, the non-Communist democratic opposition has become much more visible and active. NAMFREL has maintained and strengthened its organization since 1984. Along with the partial rebirth of electoral politics has come a partial resuscitation of an opposition press.

The Catholic Church is well organized and effectively led nationally and commands the continued respect of the vast majority of Filipinos. The church under the moderate leadership of Cardinal Jaime Sin has been outspokenly critical of Government abuses, but has avoided an actual rupture in relations with the Marcos regime. Most recently, Cardinal Sin has pressed for a reconciliation be-

tween the church and the Government. Although some radical priests have become active collaborators with the NPA, the overall church posture is strongly anti-Communist. By becoming heavily involved in political and social action in including a national network of "basic Christian communities" on the Latin American pattern, the church has challenged the radical left for the support of the nation's poor.

Within the Philippine Armed Forces there is still a large number of professionally competent and honest officers, particularly at the middle and lower ranks. Many of them are graduates of the Philippine Military Academy who have recently organized a nonpolitical reform movement in an effort to restore the professional integrity of the armed forces. Similarly, in business, Government, education, and other sectors of Philippine society there is a rich endowment of talented, professionally trained people who could rebuild the country.

Perhaps the strongest basis for a non-Communist future is the continued widespread devotion in the Philippines to democratic norms and processes—particularly elections. Democracy has deeper roots in the Philippines than in most developing countries. Despite the inhospitable conditions of recent years, these roots are still alive. There also remains a reservoir of affection for, and identification with, the United States among the broad mass of Filipinos. A recent public opinion poll shows substantial popular support for the propositions that America has the best interests of the Philippines at heart and that the United States should remain at Clark and Subic.

These are assets, but they are wasting assets. In the absence of a government in Manila seriously committed to reforms, the strength of the insurgency will continue to grow. The reforms that are required include conducting fair elections; depoliticizing and professionalizing the armed forces; developing a counterinsurgency strategy involving the coordination of military, political, and economic initiatives; launching an attack on Government corruption; and producing an economic recovery program built on the destruction of the crony system and a more equitable distribution of wealth and opportunity.

Even with the most vigorous reform measures, it will take several years to reverse the tide of insurgency. Unless reforms are implemented in the very near future, democratic forces may be unable to seize the initiative from, or offer a credible alternative to the CPP/NPA.

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